Working Group on Institutional Structure
December 2, 2004, 10:00 a.m., HCDCH Boardroom

Present: Don Tarleton (Chair), Craig Hirai, Charles Ota, Henry Oliva, Pamela Dodson, Dean Uchida, Janice Takahashi, Mavis Masaki

> Assignment – "Create an institutional structure to focus on stimulating the development of affordable, workforce housing."

Discussion

Chair Tarleton updated the group on three additional survey responses received since the previous meeting. Rhode Island, New York City, and Illinois responded, and all three have separate Housing Financing Agencies (HFAs) that do not administer public housing programs.

There was discussion regarding the HCDCH's status as a "troubled" public housing authority (PHA). The HCDCH has entered into a Memorandum of Agreement (MOA) with the U.S. Department of Housing and Urban Development (HUD) to resolve problems that HUD has identified related to several aspects of the HCDCH's management and maintenance of its federal public housing properties. The HUD Assistant Secretary for Public and Indian Housing, Michael Liu, has stated that if HUD is not satisfied that the HCDCH has complied with the terms of the MOA at the end of the MOA period, the HCDCH could enter HUD receivership. Under receivership, all of the HCDCH's assets, whether or not directly related to public housing, could be taken over by HUD receivers. This would include affordable housing financing and development assets, like the Dwelling Unit Revolving Fund and the Rental Housing Trust Fund. If that in fact took place, it is likely that efforts that are not related to public housing, such as the Governor's initiative to spur the development of 17,000 new affordable rental units, will be sidelined. However, if a separate HFA were created, to which the HCDCH's revolving funds would be transferred, those assets may not be taken over by HUD receivers.

Chair Tarleton threw out for discussion the concept of creating a new HFA within the State government from scratch. The new HFA would administer the Hula Mae Single Family, Mortgage Credit Certificate, Hula Mae Multi-Family, Low-Income Housing Tax Credit, and Rental Housing Trust Fund programs, General Excise Tax exemptions, and the Section 8 Program. The advantages of this proposal would be that it would be easier to set up a new agency that is modeled like the HFAs employed by the other 48 States. The new agency would have a governing board appointed by the Governor. There was discussion over the practicalities of how such an action would be implemented, including to what Department the HFA would be attached, and whether positions would be transferred from the HCDCH's Finance branch to the new agency or whether new positions would be created.

One advantage would be that the new agency's board would have an opportunity to become more knowledgeable in the details of housing financing programs, such as bond financing, and, because of that familiarity, would be more comfortable with delegating some decision-making to staff in order to deliver financial resources more expeditiously. The board would be able to devote all of its time to developing resources to bring about needed affordable housing units. This would result in more streamlined decision-making on financing packages and be more business-friendly. It was also suggested that the new agency follow a private sector organizational model. The result of the new agency would be faster, more professional delivery of financial services to speed production of affordable housing.

Concerns were raised that by creating a new HFA apart from the HCDCH and its Development branch, the current initiative to package financing and developable lands for developers to create incentives to build affordable housing might suffer. However it was noted that the new HFA and the HCDCH could work together on affordable housing projects.

Mr. Oliva suggested we look at Act 51, SLH 2004, which phases in the transfer of functions, positions, and resources prospectively. Therefore, it may be possible to immediately create a new housing finance agency to demonstrate legislative intent while allowing more time for the transfer of the housing finance functions, positions, and funding sources to occur.

It was suggested that the HCDCH also consider partnering with the private sector in order to more efficiently handle some of its public housing agency (PHA) functions. This would involve taking an approach similar to the public-private ventures used by the military, whereby, a private-public venture would acquire, develop and manage mixed-income, mixed-use, and/or mixed-finance housing projects in partnership with the HCDCH. HUD, under its mixed-finance public housing development program, already allows PHAs to leverage HUD funds with private or other public sources of financing to develop projects with public housing units and may provide an operating subsidy for the ongoing operation of these public housing units. A key part of this initiative would be for the HCDCH to restructure its portfolio of properties in order to obtain capital and address its public housing backlog. Mixed-finance public-private ventures would also be helpful in increasing the overall number of affordable rental units.

Another form of privatization would be for the State to issue a request for proposals for the development of workforce housing. In return the selected developer would receive zoning or other entitlements for another parcel of land unrelated to the housing parcel. For example, the developer would be granted commercial or industrial zoning which could offset losses relating to the development of workforce housing.

<u>Recommendations</u>:

The four alternatives are:

1. Create a new HFA.
2. Separate the public housing functions by transferring the financing and development functions to a newly created housing finance and development agency (e.g. HHA and HFDC);
3. Create a mini-HFA within the HCDCH; or
4. Strengthen what HCDCH has now.

Of the four alternatives, the Working Group decided on the following recommendations:

1. The group feels that an HFA would be the most responsive organizational structure and would provide the most professional delivery of financial services to speed production of affordable housing. Therefore, a new HFA should be created to administer the Hula Mae Single Family, Mortgage Credit Certificate, Hula Mae Multi-Family, Low-Income Housing Tax Credit, and Rental Housing Trust Fund programs, General Excise Tax exemptions, and the Section 8 program. The new HFA should be business-friendly and responsive to private and non-profit developers in the delivery of financial resources for affordable housing development.

2. The HCDCH should implement HUD's mixed finance housing initiative to improve the conditions of its public housing properties and increase the number of affordable rentals. In doing so, the HCDCH should partner with the private sector to carry out the burdens of ownership, including the day-to-day management and maintenance work, allowing the HCDCH to focus on compliance and oversight.

The Working Group also recommended that the HCDCH share the preliminary findings and recommendations of the Affordable Housing Task Force with key stakeholders before finalizing the report to the Legislature. Stakeholders include the HCDCH Board of Directors, the Mayors, the federal, state and county housing directors, and the county planning directors.